



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Andy Nielsen

FOR RELEASE March 1, 2004 515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of State Center, Iowa.

The City's receipts totaled \$2,082,295 for the year ended June 30, 2003. The receipts included \$157,429 in property tax, \$109,568 in local option sales tax, \$166,195 from other governments, \$40,401 in interest on investments and \$1,420,013 from charges for service.

Disbursements for the year totaled \$2,554,352 and included \$447,358 for capital projects, \$286,004 for community and economic development, \$1,245,648 for business type activities and \$94,083 for debt service.

This report contains recommendations to the City Council and other City officials. For example, the City should segregate accounting duties to the extent possible to ensure maximum internal control over receipts, disbursements, investments and bank reconciliations.

The report also recommended compliance with various statutory requirements. For example, the budget should be amended before disbursements are allowed to exceed the budgeted amounts. City officials' responses are included in the report.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF STATE CENTER
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2003

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	10-11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		15-21
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	23-28
Special Revenue Funds	2	29
Debt Service Fund	3	30
Capital Projects Funds	4	31
Enterprise Funds	5	32-35
Expendable Trust Funds	6	36-37
Note Maturities	7	38
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting		39-40
Schedule of Findings		41-44
Staff		45

City of State Center

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Craig Pfantz	Mayor	Jan 2004
Doyal Schossow	Council Member	Jan 2004
Roger Reker	Council Member	Jan 2004
Harlan Quick	Council Member	Jan 2006
Robert Rabey	Council Member	Jan 2006
Steve Lively	Council Member	Jan 2006
Henrietta E. Bogan	Clerk	Indefinite
Jennifer Steffens	Attorney	Indefinite

City of State Center



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of State Center, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of the City of State Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of State Center as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2003 on our consideration of the City of State Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the third preceding paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 19, 2003

Financial Statements

City of State Center
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2003

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Receipts:			
Property tax	\$ 146,746	-	10,683
Other city tax	109,568	-	-
Licenses and permits	3,164	-	-
Use of money and property	22,966	-	2,700
Intergovernmental	56,369	109,826	-
Charges for service	3,012	-	-
Miscellaneous	122,229	31,422	-
Total receipts	<u>464,054</u>	<u>141,248</u>	<u>13,383</u>
Disbursements:			
Public safety	130,165	-	-
Public works	95,724	81,982	-
Culture and recreation	115,877	-	-
Community and economic development	200,327	31,150	-
General government	35,369	-	-
Debt service	-	-	94,083
Capital projects	-	-	-
Business type activities	-	-	-
Total disbursements	<u>577,462</u>	<u>113,132</u>	<u>94,083</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(113,408)</u>	<u>28,116</u>	<u>(80,700)</u>
Other financing sources (uses):			
Sale of capital assets	4,445	-	-
Loan proceeds	200,000	-	-
Anticipatory warrant proceeds	-	-	-
Operating transfers in	1,400	-	75,228
Operating transfers out	(1,400)	-	-
Total other financing sources (uses)	<u>204,445</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	91,037	28,116	(5,472)
Balance beginning of year	<u>404,945</u>	<u>159,101</u>	<u>90,366</u>
Balance end of year	<u>\$ 495,982</u>	<u>187,217</u>	<u>84,894</u>

See notes to financial statements.

Capital Projects	Proprietary Fund Type Enterprise	Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
-	-	-	157,429
-	-	-	109,568
-	-	-	3,164
-	14,545	295	40,506
-	-	-	166,195
-	1,401,501	15,500	1,420,013
-	22,294	9,475	185,420
-	1,438,340	25,270	2,082,295
-	-	22,142	152,307
-	-	-	177,706
-	-	-	115,877
-	-	54,527	286,004
-	-	-	35,369
-	-	-	94,083
447,358	-	-	447,358
-	1,245,648	-	1,245,648
447,358	1,245,648	76,669	2,554,352
(447,358)	192,692	(51,399)	(472,057)
-	-	-	4,445
-	-	-	200,000
447,358	-	-	447,358
-	-	-	76,628
-	(75,228)	-	(76,628)
447,358	(75,228)	-	651,803
-	117,464	(51,399)	179,746
-	760,937	1,156,308	2,571,657
-	878,401	1,104,909	2,751,403

City of State Center

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2003

	Actual	Less Funds Not Required to be Budgeted	Net
Receipts:			
Property tax	\$ 157,429	-	157,429
Other city tax	109,568	-	109,568
Licenses and permits	3,164	-	3,164
Use of money and property	40,506	-	40,506
Intergovernmental	166,195	-	166,195
Charges for service	1,420,013	-	1,420,013
Miscellaneous	185,420	9,400	176,020
Total receipts	<u>2,082,295</u>	<u>9,400</u>	<u>2,072,895</u>
Disbursements:			
Public safety	152,307	-	152,307
Public works	177,706	-	177,706
Culture and recreation	115,877	-	115,877
Community and economic development	286,004	54,527	231,477
General government	35,369	-	35,369
Debt service	94,083	-	94,083
Capital projects	447,358	-	447,358
Business type activities	1,245,648	-	1,245,648
Total disbursements	<u>2,554,352</u>	<u>54,527</u>	<u>2,499,825</u>
Excess (deficiency) of receipts over (under) disbursements	(472,057)	(45,127)	(426,930)
Other financing sources, net	<u>651,803</u>	-	<u>651,803</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	179,746	(45,127)	224,873
Balance beginning of year	<u>2,571,657</u>	<u>1,140,431</u>	<u>1,431,226</u>
Balance end of year	<u>\$ 2,751,403</u>	<u>1,095,304</u>	<u>1,656,099</u>

See notes to financial statements.

Budget	Variance Favorable (Unfavorable)	Net as % of Budget
154,407	3,022	102%
86,646	22,922	126%
1,300	1,864	243%
31,900	8,606	127%
155,450	10,745	107%
1,306,600	113,413	109%
91,100	84,920	193%
<u>1,827,403</u>	<u>245,492</u>	<u>113%</u>

113,830	(38,477)	134%
253,760	76,054	70%
123,200	7,323	94%
-	(231,477)	
43,650	8,281	81%
94,043	(40)	100%
-	(447,358)	
<u>1,379,540</u>	<u>133,892</u>	<u>90%</u>
<u>2,008,023</u>	<u>(491,802)</u>	<u>124%</u>

(180,620)

-

(180,620)

2,562,906

2,382,286

City of State Center
Statement of Indebtedness
Year ended June 30, 2003

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation corporate purpose notes: Sewer project refunding	May 1, 1999	4.00-5.00%	\$ 1,000,000
General obligation housing notes: Property acquisition	Nov 1, 2002	5.00%	\$ 200,000
Revenue notes: Electric refunding	Jan 1, 2002	3.50-5.00%	\$ 1,040,000
Anticipatory warrants (note 12): Sanitary sewer, water main, and roadway improvements	Apr 17, 2002	5.00%	\$ 600,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
845,000	-	55,000	790,000	39,083
-	200,000	-	200,000	-
1,040,000	-	85,000	955,000	49,527
79,150	447,358	-	526,508	-

City of State Center

City of State Center

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The City of State Center is a political subdivision of the State of Iowa located in Marshall County. It was first incorporated in 1867 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government and business type activities.

A. Reporting Entity

For financial reporting purposes, the City of State Center has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for the benefit of the City of State Center. In accordance with criteria set by the Governmental Accounting Standards Board, the Trust meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as an Expendable Trust Fund of the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marshall County Assessor's Conference Board, Marshall County Emergency Management Commission, and Marshall County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Fiduciary Funds

Expendable Trust Funds – The Expendable Trust Funds are utilized to account for monies and properties received and held by the City in a trustee capacity. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds.

C. Basis of Accounting

The City of State Center maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

Primary Government

The City's deposits in banks at June 30, 2003 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Blended Component Unit

The Ira D. Kauffman Charitable Community Trust had mutual fund investments in American Funds Service as follows:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Mutual fund	<u>\$1,093,910</u>	<u>1,140,923</u>

The Ira D. Kauffmann Charitable Community Trust investment is a mutual fund and, therefore, is not subject to risk categorization.

(3) Long-Term Debt

Annual debt service requirements to maturity for general obligation corporate purpose notes, general obligation housing notes and revenue notes are as follows:

Year Ending June 30,	General Obligation		General Obligation		Revenue Notes		Total	
	Corporate Purpose Notes		Housing Notes		Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest				
2004	\$ 55,000	36,744	9,167	15,833	90,000	42,743	154,167	95,320
2005	60,000	34,380	15,458	9,542	95,000	39,368	170,458	83,290
2006	60,000	31,770	16,231	8,769	95,000	35,568	171,231	76,107
2007	65,000	29,130	17,043	7,957	100,000	31,625	182,043	68,712
2008	70,000	26,238	17,895	7,105	105,000	27,325	192,895	60,668
2009	70,000	23,053	18,790	6,210	110,000	22,653	198,790	51,916
2010	75,000	19,832	19,729	5,271	115,000	17,593	209,729	42,696
2011	80,000	16,345	20,716	4,284	120,000	12,130	220,716	32,759
2012	80,000	12,545	21,751	3,249	125,000	6,250	226,751	22,044
2013	85,000	8,665	43,220	2,161	-	-	128,220	10,826
2014	90,000	4,500	-	-	-	-	90,000	4,500
Total	\$ 790,000	243,202	200,000	70,381	955,000	235,255	1,945,000	548,838

The resolution providing for the issuance of the electric refunding revenue notes includes the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate Electric Sinking Account for the purpose of making the note principal and interest payments when due.
- (c) An Electric Reserve Account shall be created into which there shall be set apart and paid from legally available funds of the City the amount of \$104,000. All money credited to the Electric Reserve Account shall be used for the payment of principal and interest on the notes whenever the funds on deposit in the Electric Sinking Account are insufficient.
- (d) An Electric Improvement Account shall also be created. Net revenues remaining after first making the required payments into the Electric Sinking and Electric Reserve Accounts and after the Electric Reserve Account contains the required balance shall be transferred to this account in the amount of \$2,500 each month until there has accumulated \$150,000. This account is restricted for the purpose of making note and interest payments which the other accounts might be unable to make and/or paying for the costs of improvements and extensions to the Utility.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.58% and 8.38%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2003 was \$20,145, equal to the required contribution for that year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave hours and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2003, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 24,500
Sick leave	44,000
Compensatory time	<u>2,200</u>
Total	<u>\$ 70,700</u>

This liability has been computed based on rates of pay in effect at June 30, 2003.

(6) J. G. Gutekunst Trust

In 1971, the City received land from the J. G. Gutekunst estate. This bequest is to be used as a park and the site of a public library. In addition, the City receives semi-annual distributions of net income from the J. G. Gutekunst Trust. According to the last will and testament of J. G. Gutekunst, the distributions are for the purpose of maintaining and improving the bequeathed property and for improving any public library located on the premises given to the City of State Center.

Distributions are credited to the General Fund, Library Account. The Library received \$82,566 from this Trust during the year ended June 30, 2003.

(7) Elnora Eckhardt Trust

The City receives an annual distribution from the Elnora Eckhardt Trust in an amount determined by the Trustees in accordance with the last will and testament of Elnora Eckhardt. According to the will, the distributions are to be used only for the State Center Rose Garden or for the purposes of maintenance, repair or replacement of the City's sanitary sewer system. Distributions are placed in the Expendable Trust Fund, Eckhardt Contributions Account. The balance of this account at June 30, 2003 totaled \$4,787.

(8) Ira D. Kauffman Community Trust

According to the provisions of the last will and testament of Ira D. Kauffman, the City of State Center received \$81,622 in fiscal year 1997 and \$975,471 in fiscal year 1998. The proceeds were deposited into the Ira D. Kauffman Community Trust Account and are to be used for a public purpose which will benefit the residents of the City of State Center. The balance of this account at June 30, 2003 totaled \$1,095,304.

(9) Risk Management

The City of State Center is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage

limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the fiscal year ended June 30, 2003.

The City assumes liability for claims up to the individual deduction limitations of \$750 for the City's health insurance. The City's payment to the employees for the year ended June 30, 2003 was \$2,037.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2003, disbursements in the public safety, community and economic development, debt service and capital projects functions exceeded the amounts budgeted.

(11) Deficit Balance

The Special Revenue Fund, Housing Rehabilitation Program account had a deficit balance of \$228 at June 30, 2003. The deficit will be eliminated through future receipts.

(12) Anticipatory Warrants

Anticipatory warrants are warrants which are legally drawn on City funds, but are not paid for lack of funds, in accordance with Chapters 74 and 384.57 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

During the year ended June 30, 2003, the City issued \$447,358 of anticipatory warrants at 5.00% interest per annum for construction of its Downtown Improvement Project. Anticipatory warrants outstanding as of June 30, 2003 totaled \$526,508.

(13) Construction Commitment

The City entered into contracts for the Main Street Project totaling \$566,628, of which \$531,298 had been paid on the contract as of June 30, 2003. Additional payments will be made as work on the project progresses.

(14) Subsequent Event

In October 2003, the City provided for the issuance of anticipatory warrants not to exceed \$500,000. The anticipatory warrants will be used to pay costs in connection with the construction of the Figgins Urban Renewal Area Project.

Supplemental Information

City of State Center
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	First Responders	Fire Department
Receipts:			
Property tax	\$ 146,746	-	-
Other City tax:			
Local option sales tax	109,568	-	-
Licenses and permits:			
Cigarette	225	-	-
Beer	840	-	-
Cable franchise fee	2,099	-	-
	3,164	-	-
Use of money and property:			
Interest on investments	19,410	120	124
Rent	105	-	-
	19,515	120	124
Intergovernmental:			
State allocation	8,235	-	-
Bank franchise tax	13,139	-	-
Governors safety traffic grant	4,184	-	-
State step grant	150	-	-
Hazard mitigation grant	607	-	-
Population allocation	5,899	-	-
County allocation	-	-	-
Open access	-	-	-
State allocation	2,300	-	-
	34,514	-	-
Charges for service:			
Sidewalk street repair charges	600	-	-
Fines, copies and miscellaneous	-	-	-
	600	-	-
Miscellaneous:			
Distribution from Gutekunst Trust	-	-	-
Fundraising	-	108	14,866
Gifts and donations	3,518	3,638	5,454
Court fines	1,656	-	-
Miscellaneous	2,165	773	369
	7,339	4,519	20,689
Total receipts	321,446	4,639	20,813

Property and Development	Library	Rose Garden	Total
-	-	-	146,746
-	-	-	109,568
-	-	-	225
-	-	-	840
-	-	-	2,099
-	-	-	3,164
-	3,183	24	22,861
-	-	-	105
-	3,183	24	22,966
-	-	-	8,235
-	-	-	13,139
-	-	-	4,184
-	-	-	150
-	-	-	607
-	-	-	5,899
-	7,815	-	7,815
-	1,840	-	1,840
-	-	12,200	14,500
-	9,655	12,200	56,369
-	-	-	600
-	2,412	-	2,412
-	2,412	-	3,012
-	82,566	-	82,566
-	-	-	14,974
-	5,237	1,227	19,074
-	-	-	1,656
327	325	-	3,959
327	88,128	1,227	122,229
327	103,378	13,451	464,054

City of State Center
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	First Responders	Fire Department
Disbursements:			
Public safety:			
Police:			
Personal services	57,712	-	-
Services and commodities	13,737	-	-
Capital outlay	3,271	-	-
	<u>74,720</u>	-	-
Fire:			
Services and commodities	8,792	-	26,498
Capital outlay	2,116	-	-
	<u>10,908</u>	-	<u>26,498</u>
First Responders:			
Services and commodities	3,029	5,522	-
Capital outlay	9,488	-	-
	<u>12,517</u>	<u>5,522</u>	<u>-</u>
	<u>98,145</u>	<u>5,522</u>	<u>26,498</u>
Public works:			
Street:			
Personal services	50,427	-	-
Services and commodities	30,050	-	-
Capital outlay	8,261	-	-
	<u>88,738</u>	-	-
Garbage:			
Services and commodities	6,986	-	-
	<u>95,724</u>	-	-
Culture and recreation:			
Library:			
Personal services	-	-	-
Services and commodities	1,800	-	-
	<u>1,800</u>	-	-
Park and recreation:			
Services and commodities	3,255	-	-
Rose Festival:			
Services and commodities	5,388	-	-
Rose Garden:			
Services and commodities	10,000	-	-
	<u>20,443</u>	-	-

Property and Development	Library	Rose Garden	Total
-	-	-	57,712
-	-	-	13,737
-	-	-	3,271
-	-	-	74,720
-	-	-	35,290
-	-	-	2,116
-	-	-	37,406
-	-	-	8,551
-	-	-	9,488
-	-	-	18,039
-	-	-	130,165
-	-	-	50,427
-	-	-	30,050
-	-	-	8,261
-	-	-	88,738
-	-	-	6,986
-	-	-	95,724
-	49,947	-	49,947
-	32,183	-	33,983
-	82,130	-	83,930
-	-	-	3,255
-	-	-	5,388
-	-	13,304	23,304
-	82,130	13,304	115,877

City of State Center
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2003

	General	First Responders	Fire Department
Disbursements (continued):			
Community and economic development:			
Property development:			
Capital outlay	-	-	-
General government:			
Mayor and council members:			
Personal services	2,052	-	-
City Hall administration:			
Services and commodities	16,396	-	-
City Hall building:			
Personal services	1,296	-	-
Services and commodities	5,509	-	-
	6,805	-	-
Professional services:			
Services and commodities	10,116	-	-
	35,369	-	-
Total disbursements	249,681	5,522	26,498
Excess (deficiency) of receipts over (under) disbursements	71,765	(883)	(5,685)
Other financing sources (uses):			
Sale of general fixed assets	3,500	945	-
Loan proceeds	-	-	-
Operating transfers in (out):			
General:			
Fire Department	-	(1,400)	-
First Responders	-	-	1,400
Total other financing sources (uses)	3,500	(455)	(4,285)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	75,265	(1,338)	(4,285)
Balance beginning of year	245,732	7,262	8,880
Balance end of year	\$ 320,997	5,924	4,595

See accompanying independent auditor's report.

Property and Development	Library	Rose Garden	Total
200,327	-	-	200,327
-	-	-	2,052
-	-	-	16,396
-	-	-	1,296
-	-	-	5,509
-	-	-	6,805
-	-	-	10,116
-	-	-	35,369
200,327	82,130	13,304	577,462
(200,000)	21,248	147	(113,408)
-	-	-	4,445
200,000	-	-	200,000
-	-	-	(1,400)
-	-	-	1,400
200,000	-	-	204,445
-	21,248	147	91,037
-	143,038	33	404,945
-	164,286	180	495,982

Schedule 2

City of State Center
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2003

	Road Use Tax	First Responders	Housing Rehabilitation Program	Total
Receipts:				
Intergovernmental:				
Road use tax allocation	\$ 109,826	-	-	109,826
Miscellaneous:				
Donations and contributions	-	500	-	500
Community development block grant	-	-	30,922	30,922
	-	500	30,922	31,422
Total receipts	109,826	500	30,922	141,248
Disbursements:				
Public works:				
Personal services	53,054	-	-	53,054
Services and commodities	17,342	-	-	17,342
Capital outlay	11,586	-	-	11,586
	81,982	-	-	81,982
Community and economic development:				
Services and commodities	-	-	31,150	31,150
Total disbursements	81,982	-	31,150	113,132
Excess (deficiency) of receipts over (under) disbursements	27,844	500	(228)	28,116
Balance beginning of year	157,251	1,850	-	159,101
Balance end of year	\$ 185,095	2,350	(228)	187,217

See accompanying independent auditor's report.

City of State Center
 Schedule of Cash Transactions
 Debt Service Fund
 Year ended June 30, 2003

Receipts:	
Property tax	\$ 10,683
Use of money and property:	
Interest on investments	<u>2,700</u>
Total receipts	<u>13,383</u>
Disbursements:	
Debt service:	
Principal redemption	55,000
Interest	<u>39,083</u>
Total disbursements	<u>94,083</u>
Deficiency of receipts under disbursements	(80,700)
Other financing sources:	
Operating transfers in:	
Enterprise:	
Sewer Rental	<u>75,228</u>
Deficiency of receipts and other financing sources under disbursements	(5,472)
Balance beginning of year	<u>90,366</u>
Balance end of year	<u><u>\$ 84,894</u></u>

See accompanying independent auditor's report.

City of State Center

City of State Center
Schedule of Cash Transactions
Capital Projects Fund
Year ended June 30, 2003

Receipts:	
None	\$ -
Disbursements:	
Capital projects:	
Main street project:	
Capital outlay	<u>447,358</u>
Deficiency of receipts under disbursements	(447,358)
Other financing sources:	
Anticipatory warrant proceeds	<u>447,358</u>
Net	-
Balance beginning of year	<u>-</u>
Balance end of year	<u><u>\$ -</u></u>

See accompanying independent auditor's report.

City of State Center
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water Utility	Sewer Rental	Electric
Receipts:			
Use of money and property:			
Interest on investments	\$ 3,060	1,335	10,150
Charges for service:			
Sale of water	145,792	-	-
Bulk water sales	1,671	-	-
Sewer rental fees	-	134,696	-
Sale of electricity	-	-	1,119,342
	<u>147,463</u>	<u>134,696</u>	<u>1,119,342</u>
Miscellaneous:			
Customer deposits	-	-	-
Miscellaneous	1,261	1,090	10,208
	<u>1,261</u>	<u>1,090</u>	<u>10,208</u>
Total receipts	<u>151,784</u>	<u>137,121</u>	<u>1,139,700</u>
Disbursements:			
Business type activities:			
Utility services:			
Personal services	26,956	16,964	88,720
Services and commodities	36,037	16,441	246,746
Customer deposits	89,390	7,816	-
	<u>152,383</u>	<u>41,221</u>	<u>335,466</u>
Electric distribution:			
Personal services	-	-	67,987
Services and commodities	-	-	35,480
Capital outlay	-	-	91,455
	<u>-</u>	<u>-</u>	<u>194,922</u>
Electric plant:			
Personal services	-	-	36,835
Services and commodities	-	-	342,109
	<u>-</u>	<u>-</u>	<u>378,944</u>
	<u>152,383</u>	<u>41,221</u>	<u>909,332</u>

Electric Reserve	Electric Improvement	Electric Sinking	Meter Deposits	Total
-	-	-	-	14,545
-	-	-	-	145,792
-	-	-	-	1,671
-	-	-	-	134,696
-	-	-	-	1,119,342
-	-	-	-	1,401,501
-	-	-	9,735	9,735
-	-	-	-	12,559
-	-	-	9,735	22,294
-	-	-	9,735	1,438,340
-	-	-	-	132,640
-	-	-	-	299,224
-	-	-	8,185	105,391
-	-	-	8,185	537,255
-	-	-	-	67,987
-	-	-	-	35,480
-	-	-	-	91,455
-	-	-	-	194,922
-	-	-	-	36,835
-	-	-	-	342,109
-	-	-	-	378,944
-	-	-	8,185	1,111,121

City of State Center
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2003

	Water Utility	Sewer Rental	Electric
Disbursements (continued):			
Business type activities:			
Debt service:			
Principal redeemed	-	-	-
Interest paid	-	-	-
Total disbursements	<u>152,383</u>	<u>41,221</u>	<u>909,332</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(599)</u>	<u>95,900</u>	<u>230,368</u>
Other financing sources (uses):			
Operating transfers in (out):			
Debt Service	-	(75,228)	-
Enterprise:			
Electric Sinking	-	-	(168,000)
Electric	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(75,228)</u>	<u>(168,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(599)</u>	<u>20,672</u>	<u>62,368</u>
Balance beginning of year	<u>172,098</u>	<u>55,744</u>	<u>149,822</u>
Balance end of year	<u>\$ 171,499</u>	<u>76,416</u>	<u>212,190</u>

See accompanying independent auditor's report.

Electric Reserve	Electric Improvement	Electric Sinking	Meter Deposits	Total
-	-	85,000	-	85,000
-	-	49,527	-	49,527
-	-	134,527	-	134,527
-	-	134,527	8,185	1,245,648
-	-	(134,527)	1,550	192,692
-	-	-	-	(75,228)
-	-	-	-	(168,000)
-	-	168,000	-	168,000
-	-	168,000	-	(75,228)
-	-	33,473	1,550	117,464
140,000	150,000	70,000	23,273	760,937
140,000	150,000	103,473	24,823	878,401

City of State Center
Combining Schedule of Cash Transactions
Expendable Trust Funds
Year ended June 30, 2003

	Township Fire	Eckhardt Contributions
Receipts:		
Use of money and property:		
Interest on investments	\$ 295	-
Charges for service:		
Township fire protection	15,500	-
Miscellaneous:		
Bequest	-	-
Gifts and donations	-	-
Total receipts	15,795	-
Disbursements:		
Public safety:		
Services and commodities	1,000	-
Capital outlay	21,142	-
	22,142	-
Communtiy and economic development:		
Services and commodities	-	-
Total disbursements	22,142	-
Excess (deficiency) of receipts over (under) disbursements	(6,347)	-
Balance beginning of year	11,090	4,787
Balance end of year	\$ 4,743	4,787

See accompanying independent auditor's report.

Police Reserve	Ira D. Kauffman Community Trust	Total
-	-	295
-	-	15,500
-	9,400	9,400
75	-	75
75	9,400	9,475
75	9,400	25,270
-	-	1,000
-	-	21,142
-	-	22,142
-	54,527	54,527
-	54,527	76,669
75	(45,127)	(51,399)
-	1,140,431	1,156,308
75	1,095,304	1,104,909

Schedule 7

City of State Center

Note Maturities

June 30, 2003

Year Ending June 30,	General Obligation Notes					Total
	Corporate Purpose		Housing			
	Issued May 1, 1999		Issued Nov 1, 2002			
	Interest Rate	Amount	Interest Rate	Amount		
2004	4.30%	\$ 55,000	5.00%	\$ 9,167	64,167	
2005	4.35	60,000	5.00	15,458	75,458	
2006	4.40	60,000	5.00	16,231	76,231	
2007	4.45	65,000	5.00	17,043	82,043	
2008	4.55	70,000	5.00	17,895	87,895	
2009	4.60	70,000	5.00	18,790	88,790	
2010	4.65	75,000	5.00	19,729	94,729	
2011	4.75	80,000	5.00	20,716	100,716	
2012	4.85	80,000	5.00	21,751	101,751	
2013	4.90	85,000	5.00	43,220	128,220	
2014	5.00	90,000	5.00	-	90,000	
Total		<u>\$790,000</u>		<u>\$200,000</u>	<u>\$990,000</u>	

Year Ending June 30,	Revenue Notes	
	Electric	
	Issued Jan 1, 2002	
Interest Rate	Amount	
2004	3.75%	\$ 90,000
2005	4.00	95,000
2006	4.15	95,000
2007	4.30	100,000
2008	4.45	105,000
2009	4.60	110,000
2010	4.75	115,000
2011	4.90	120,000
2012	5.00	125,000
		<u>\$955,000</u>

See accompanying independent auditor's report.



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of State Center, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 19, 2003. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of State Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of State Center's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for items (2) and (5).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of State Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of State Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior audit reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of State Center and other parties to whom the City of State Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of State Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 19, 2003

City of State Center
Schedule of Findings
Year ended June 30, 2003

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:

	<u>Applicable Offices</u>
(1) Receipts – collecting, depositing, journalizing, posting and reconciling.	City, Library, Rose Garden, Fire Department
(2) Disbursements – check writing, signing, posting and reconciling.	City, Library, Rose Garden, Fire Department
(3) Payroll – preparation and distribution.	City, Library
(4) Investments – authorization and accounting functions.	City, Library
(5) Accounting procedures manual.	City, Library, Rose Garden, Fire Department
(6) Bank account reconciliations.	City, Library, Rose Garden, Fire Department

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the procedures should be reviewed to obtain the maximum internal control possible under the circumstances.

Responses:

City – Duties are segregated to the extent possible. Both the City Clerk and Deputy Clerk issue receipts and each do deposits and the Clerk does payroll, however each employee reviews their checks carefully. The Council and Mayor are aware of all investments and the City will look into an accounting procedures manual. Dual signatures will be required on each check.

Library – Duties are segregated to the extent possible. Receipts are handled by librarians. Deposits are made by a different person and the Treasurer will review them. Disbursements are done by the Treasurer after approval of the Board of Trustees. We will see if we can have another Trustee reconcile the account. We will develop written office procedures and a standardized accounting manual.

Rose Garden – We will try to segregate duties to the extent possible. We only write about 15 to 20 checks a year and will have the President reconcile.

City of State Center

Schedule of Findings

Year ended June 30, 2003

Fire Department – We will have all disbursements given to the Chief to approve before payment. If time of payment allows we will have a list to approve at officer’s meeting and monthly meetings. We will do a monthly report of all financial transactions and present these at the monthly meeting. An independent person will do the reconciling of all accounts and statements which will be sent to Fire Department for review and then sent to the Treasurer.

First Responders – We will try to develop an accounting procedures manual.

Conclusion – Responses acknowledged. Procedures should be reviewed to obtain the maximum internal control possible under the circumstances. This could include utilizing the Mayor or the City Council in the review and approval of the above items.

(B) Library Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions should be maintained and should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response – We will implement a record of investment transactions.

Conclusion – Response accepted.

(C) Fire Department and First Responders Receipts – The Fire Department and First Responders did not issue receipts for collections.

Recommendation – Prenumbered receipts should be issued for all collections.

Response – We will issue receipts for donations through the year, except for Fire and EMS Ball, which keeps a complete list of name, check and address and amount of each donation.

Conclusion – Response accepted.

City of State Center
 Schedule of Findings
 Year ended June 30, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2003.
- (2) Certified Budget – Disbursements during the year ended June 30, 2003, exceeded the amounts budgeted in the public safety, community and economic development, debt service, and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Items occurred after amendment period of time to be effective.

Conclusion – Response acknowledged. The City should continually monitor its budget and amend in accordance with Chapter 384.18 of the Code of Iowa. Disbursements should not be made before the budget is amended.

- (3) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (4) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Eckhardt, Fire Chief, owns Eckhardt Enterprises	Insurance	\$90,457

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction for insurance may represent a conflict of interest since the total cumulative transaction amount was greater than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – He has been the City’s insurance agent for years. He is currently the Fire Chief.

City of State Center

Schedule of Findings

Year ended June 30, 2003

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

- (6) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response of City, Library, Rose Garden, First Responders and Fire Department – Will ask the bank for copies of both the front and back of checks.

Conclusion – Response accepted.

- (10) Financial Condition – At June 30, 2003, the City had a deficit balance in the Special Revenue Fund, Housing Rehabilitation Program account of \$228.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – This fund is for a grant, which expires April 2004. Region Six personnel administer the program with the State sending payment to the City. Future receipts will eliminate this deficit.

Conclusion – Response accepted.

City of State Center

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Sarah M. Wright, Staff Auditor
Pamela L. Brandenburg, Senior Auditor
John G. Vanis, CGFM, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State